Operating a Small Service Business

Alberta

ECONOMIC DEVELOPMENT
AND TRADE
Small Business Division

Operating a Small Service Business

The service industry represents a very significant segment of the total number of small and medium-sized businesses in Alberta. Included are such businesses as service stations, repair shops, restaurants, hotels, auto-body shops, hairdressers, contractors, drycleaners, building maintenance services, and countless other types of enterprises. Service businesses can vary in size from firms with several hundred employees to the more commonly found companies with less than five employees.

When expanding or establishing a business, whether it be retail, service or manufacturing, the task is often difficult and time consuming. While large firms have more personnel and a greater depth of management expertise, the manager of a small service enterprise must perform various functions. He has to have expertise in finance, production, marketing, purchasing, design, accounting and labour relations. Starting and managing a business also requires a personal commitment in time, effort and money.

To attempt to discuss in detail all types and aspect of service businesses in this handbook would be beyond the scope of this publication. Instead, the objective of the handbook is to provide simple business advice to owner-managers of new or existing small service enterprises.

"Operating a Small Service Business" is one of a series of booklets published by Economic Development and Trade, Small Business Division. Other booklets that may be useful are:

- Starting a Small Business
- Financing a Small Business
- Marketing for a Small Business
- Operating a Small Retail Business
- Operating a Small Manufacturing Business
- Selecting a Small Business Computer System
- Bookkeeping for a Small Business
- Operating a Small Construction Business

These publications are available at all Alberta Economic Development and Trade offices listed in the back of this publication.

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Chapter One

Location

For service businesses such as restaurants, motels, and drycleaners, good location is the cornerstone of a successful business. For other businesses, such as trucking, location within certain parameters is less important.

Thorough investigation of a potential location or site is seldom wasted time. The prospect of low rent and attractive leaseholds can often force the prospective businessman into a poor location. Every business venture is a risk, but with a poor location you are tempting fate!

The planning of your business not only requires careful consideration of the location of the site, but also of the surrounding district if you are expecting to draw business from it. Carefully make out a plan of your business and then attempt to fit it to the location, not the other way around.

SITE SELECTION

Carefully consider the neighbourhood, or in a rural area, the town in which you are proposing to locate. Ask yourself, for example, whether the community is run down. Is it growing? What is the age composition of the area? Older, established communities generally have different shopping needs and tastes than a younger developing area consisting of many families with small children. Similarly, families of low, medium and high incomes generally have different spending habits that could influence the acceptance of your service.

Consider other factors such as the growth potential of the area in five or ten years. Are there many apartment dwellers or single family residences, and what would their spending habits likely be? Is the community dependent on a single industry? What would happen if there was a prolonged strike or if the industry faced a recession? Check with Statistics Canada or the Alberta Bureau of Statistics to determine if they have any information on the area in which you are choosing to locate. The Regional Business Development Branch of Alberta Economic Development and Trade has community profiles of rural locations.

It is advisable to assess the competition that you can expect. How many other businesses of a similar nature are in the vicinity? The type, quality and price of the services they offer should be reviewed to determine your competitive position. In some cases, a business is built up over time based upon the personal attributes of its owner. Therefore, attempt to discern if you can break into a market that is presently captured through the personality and aggressiveness of an existing business owner.

When assessing potential competition, ask questions such as: How many firms offer the same service and how large are they? Do they look prosperous? What apparent advantages do they have? Did any businesses offering similar services go out of business last year? Why? Which firm will be the biggest competition? How many competitors started up recently?

Some new businesses use a score sheet such as the one given below to compare potential sites. Grade each item according to "A" for excellent, "B" for good, "C" for fair and "D" for poor.

Item	Grade
(1) Possible competition nearby	________
(2) Proximity to market	________
(3) Traffic flow — pedestrian/vehicles	________
(4) Availability of employees	________
(5) Prevalent rates of employee pay	________
(6) Provision for future expansion	________
(7) Type and cost of lease	________
(8) Physical suitability of building	________
(9) Community assessment	________
(10) Quality of police and fire protection	________
(11) Taxation burden	________
(12) Parking facilities	________
(13) Utility charges	________
(14) Transportation availability and rates	________
(15) Availability of raw materials	________
(16) Estimated quality of site in 10 years	________

Selecting a site could be one of the more important decisions facing the business.

WHETHER TO RENT OR PURCHASE FACILITIES

In many cases, businessmen have purchased their buildings and have been the potential recipients of good increases in property values. However, generally speaking, most service businesses are not in the real estate speculation business and should not purchase property. Some businessmen have failed simply because they have had their capital tied up in buildings when it could have been better used in the business itself.

If you do decide to purchase your building, then keep in mind that if you should want to sell your business, it might be harder to find someone with enough capital to buy both the business and the building.

If you put money into a building of your own, that money should bring you an income just as if you invested it somewhere else. In your accounts, the business should be charged with either rent or interest, maintenance, insurance, depreciation and other expenses of owning a building. If this point is overlooked, the amount shown as net profit on the business is not, in fact, profit.

If you rent your building, be sure that you will be able to stay in the same location if the business proves successful. At the same time, you should be free to move after a reasonable length of time if the location does not prove satisfactory. A short-term lease with option to renew is the best way to take care of both these possibilities.

Often it is a good idea to have a lawyer or real estate person familiar with lease agreements check your lease. These persons may be helpful in tailoring a fair contract and can make useful suggestions on available options. If you are borrowing money from a lending institution, the loan officer will probably want to examine the lease.

Before signing a lease, be sure to check it thoroughly. Notice details such as:

(1) Can built-in equipment and fixtures be installed and removed?
(2) Who takes care of plumbing, electrical or air conditioning repairs.
(3) Who is responsible for maintenance and supplies?
(4) Who is responsible for alterations?
(5) Who is responsible for the payment of utilities?
(6) Who is responsible for insurance on the buildings and properties, including liability insurance?
(7) Can all or any part of the property be sublet?
(8) What is the liability in case of lease default?
(9) What are the common area charges?

When considering a facility, determine if there is potential for expansion.

Chapter Two

Importance of Business Planning

One of the most respected management consultants in North America states that the greatest similarity that he has seen among owners and managers of businesses with difficulties is a general lack of planning. Planning is probably the most important management tool available to an owner-manager. A businessman with no plan who merely reacts to events as they occur sometimes does well, but this is more by good luck than by good management.

Most successful businesses are those which incorporate good control and planning techniques. If you are just starting a business, then careful research into all of the factors that might affect your business could effectively save money and effort, and ensure its profitable continuation.

LONG-RANGE PLANNING

Not only must the efficient owner-manager plan for the short-run by the use of cash flow, expense budgets and short run sales forecasts but also for the long run. Long-range planning is a valid tool for competing effectively and for avoiding future crises.

Doing business takes time. Many business decisions such as building a new facility, expanding a sales force, or putting together a promotional program require adequate lead time. By carefully thinking out these programs, it will be easier to see what actions are required and to provide the time for completing them on schedule.

If money is to be invested in the business for the long-term, then it is vital to think about the long-term future of the business to determine if the investment is justified. For example, if a printing press is purchased to last ten years, you must consider the position of the business in the longer term to rationalize this investment.

Long-term planning facilitates the efficient use of scarce resources. For example, if such resources as financing, facilities, manpower or supplies are limited, then planning can assist in scheduling business activities that produce the best results per dollar of expense. Long-range planning is, therefore, important to improve the total operations of the business. It encourages management to evaluate current activities in order to improve future operations.

Many managers do not plan adequately because of fear. For example, they will say that they have enough problems now without trying to cross bridges ahead of time. Events, problems and opportunities should be faced early. The real fear which the owner-manager should have is that of facing the future without a plan . . . without a set of alternatives to choose from when events occur.

Often managers argue that long-term planning is useless because the future is so uncertain. Nevertheless, a manager is betting upon the future of his business. This means he must consider the odds in favour of success or failure.

Like anything else worth doing, long-range planning is not an easy task. But, in time and with effort, written plans can be formulated to give direction to your business. Goals can be identified, a business purpose can be defined, and the successful operation of the business can become more attainable.

SHORT-TERM PLANNING

Short-term planning can more easily be tackled. For example, it is easier to determine a short-term advertising program, marketing plan or financial program. Short-term planning invariably impresses bankers and assists in obtaining financing. It also provides a definite path to follow to take advantage of currently developing opportunities. It can help you develop as a manager.

One of the more useful tools in developing a short-term plan is the cash flow budget. An example of how to perform a cash flow is given in the handbook in this series called "Financing a Small Business". Performing a cash flow budget on a monthly basis translates into closer control.

Unlike manufacturers or retailers, most service businesses don't require large amounts of revolving inventory and are not concerned with the manufacturing process. But for all types of businesses, the problem of planning cash requirements is crucial. How many businesses have experienced a cash bind? When suppliers put you on a cash on delivery (COD) basis; when the bank will not extend your credit; when your overall credit rating is poor; when you do not have the wherewithal to bid on future contracts; when creditors start demanding payment; these are not pleasant experiences. At the same time, too many businessmen pass these experiences off as not starting on the right foot instead of recognizing the problem of not planning adequately for cash requirements. A cash flow budget simply incorporates the following headings into a monthly format:

	Cash receipts (not sales but actual cash income)
Less	Cash disbursements (the money actually paid out)
Equals	Cash from operations
Plus	Cash from start of period
Less	Other cash payments
Plus	Other cash receipts
Equals	Cash at end of period.

The concept is simple and it usually pays dividends to those businessmen who build it into their normal planning and accounting functions.

Chapter Three

Legal Obligations

The handbook in this series entitled "Starting a Small Business," distributed without charge by Alberta Economic Development and Trade, Small Business Division, gives a description of licenses, permits, taxes, employer responsibilities and types of business organizations. Nevertheless, brief mention should be made of legal obligations for the small service business owner-manager.

BUSINESS LICENSES

Most service businesses are required to obtain a provincial business license from the Alberta Department of Consumer and Corporate Affairs, Licensing Branch. They have offices in Calgary, Edmonton, Fort McMurray, Lethbridge, Peace River and Red Deer. Some service businesses such as commercial trucking, private detectives, employment agencies, and those businesses involved in serving liquor require special licenses. The handbook "Starting a Small Business" gives a list of all businesses requiring special licenses.

Each local government, such as the cities of Edmonton, Calgary, Lethbridge, etc., has the authority to issue its own business licenses. Therefore, businessmen should check with local authorities to determine if local business licenses are required.

Those service businesses involved in re-manufacturing that expect to have sales over $50,000 per year are required to obtain a sales tax number from the District Excise Office of Revenue Canada.

A number of permits and licenses are issued for services and products which could affect the safety of Albertans. For example, those businesses involved with electrical, gas or plumbing installations have to have special licenses and their work in many cases is inspected either by the Alberta Department of Labour, General Safety Services Division or by the municipality.

EMPLOYER'S RESPONSIBILITIES

Briefly, some of the other obligations of the owner-manager of a small service business are:

- All businesses employing more than five people must form an "employer group" and deduct medicare premiums from payrolls. Contact the Alberta Health Care Insurance Commission.
- Almost all service type businesses must cover workers' compensation for employees. Contact the Workers' Compensation Board.
- Employers must deduct unemployment insurance premiums, Canada Pension Plan contributions and personal income tax from employees' salaries or wages on behalf of the government. Contact Revenue Canada — Taxation.

- Employers must comply with the laws regulating employment such as minimum wage, vacation pay, maternity leave, hours of work, overtime, etc. Contact the Employment Standards Branch of Alberta Labour.
- For information regarding business income taxes, contact Revenue Canada — Taxation.

INSURANCE

Most businesses that have assets should have insurance protection. It is advisable to think seriously about the type and amount of insurance that the business requires and to deal with a knowledgeable insurance broker. Ask other business acquaintances for the name of a reliable broker. It often pays to obtain competing quotes from insurance agents. Sometimes their rates are negotiable.

Be sure that you feel comfortable about the terms and conditions of the business insurance you are purchasing. You don't want any hidden surprises should something go wrong. Some types of insurance coverage that service businesses might require are listed below:

Fire Insurance: Covering damage to the premises, equipment and inventory from fire, explosion, wind, riot or smoke.

Liability Insurance: Protecting the firm from financial loss due to any claims of bodily injury or property damage sustained by customers or others on the business premises or during business-related activity.

Crime Coverage: Paying for losses due to vandalism, burglary, robbery and employee dishonesty.

Fidelity Bonds: Placed on employees with access to cash receipts or any other company funds, guaranteeing against loss from embezzlement.

Automobile Insurance: For both physical damage and liability coverage for company-owned vehicles or cars used on business.

Business Owner's Life Insurance: Often partners in a business will purchase life insurance on each other's life in order that on the death of one partner, the other partners will have the funds to purchase all of the business. Lenders sometimes require insurance in favour of the lending agency if a term loan is to be made. Some businessmen place insurance on key employees whose death would cause hardship to the business.

Business Interruption Insurance: Compensating for revenue lost during a temporary halt in business caused by fire, theft or illness.

BONDING

Another type of insurance a service business sometimes requires, particularly those in the construction trades, is performance bonds. Performance bonds are sold by surety

companies to companies for particular jobs. For example, the government often insists that contractors must be bondable to bid on their construction projects. This is to ensure that the contractor has the ability and wherewithal to complete the job satisfactorily. In other words, when a company obtains a performance bond it is insuring the job in order to give the client recourse should something go wrong. It is often difficult to obtain a performance bond because the contractor must demonstrate to the surety company that he can perform the work satisfactorily.

Besides performance bonds, there are bid bonds which assure that the bidder is prepared to perform the work according to the terms of the contract if he is successful in his bid. There are also payment bonds which assure anyone dealing with the bonded contractor that he will be paid.

The effect of bonding on the construction industry is that contractors compete mostly on price since the customer is more or less assured of adequate completion of the job. The price competition that is generated often leads the inexperienced contractor to submit bids that are unrealistically low. One or two such mistakes can spell bankruptcy.

Bonding companies usually require the contractor to have proven experience and the organizational and financial capacity to complete the job. This can be a real stumbling block to the new firm. On the other hand, bankers are often more lenient towards bonded contractors when lending money.

Security is required to guarantee employees' entitlements within the designated industries of lumbering and coal mining under the Industrial Wages Security Act. Contact:

Employment Standards Branch
Room 901
10808 - 99 Avenue
Edmonton, Alberta
T5K 0G5
Phone: 427-8541

Chapter Four

Marketing

Many owner-managers do not take the same care in planning for markets as they do other aspects of their business. Good marketing techniques are the life blood of your enterprise, and formalized marketing planning is vital to short-term and long-term success. It provides a detailed comprehensive written plan and sets forth, well in advance, exactly how sales increase and gross profit increases are to be achieved.

The first question to ask is: "What business am I in?" At first glance this may appear to be a needless question, but many businesses have failed because owner-managers have wasted time, effort and money because they were confused about the business they were operating — a barber shop or a hair styling salon; and many businessmen who are in the sales and service business could more profitably concentrate their efforts on either sales or repairs, but not both.

Time spent on developing a good understanding of your service and business is a fundamental area and will be of benefit when devising a marketing and business plan. It is useful to ask questions such as: What is it that you are attempting to do the same as, differently, or better than your competition? Why should a customer use your service? When would they use it? Where would they use it? In what areas do you see your service expanding? What do you do best? What service do people ask for that you do not offer? What supplies of parts and materials inventory must you keep on hand? It is best to write down your thoughts as it helps to formalize your thinking.

FINDING THE SALES POTENTIAL

After clearly identifying your service, you should attempt to determine estimated sales volume. Generally, in a service business, sales potential will usually depend upon the area you service. The type of customers serviced is also important, that is, are they industrial, institutional, commercial consumers, or all of these? Attempt to identify as clearly as possible just who your potential customers are and where they are located. Statistics Canada and the Alberta Bureau of Statistics have data on the dollars spent by area within Alberta for certain types of services.

There are many sources to check when trying to estimate total sales potential. For example, a person starting in the rug cleaning business in Calgary recently went through the following steps to determine his sales potential. First of all, he defined his sales area in a certain part of Calgary. He then carefully determined how many single family homes there were in his area through the post office and on city maps. He then found through real estate agents the approximate floor footage in each house, and what percentage of that was in rugs. He also discovered how many commercial office buildings there were in his area, and what approximate rug floor footage they contained. He then went to the suppliers of rug

cleaning chemicals and other sources to determine how often a rug should be cleaned. By these and other sources, he was soon able to determine his market and its sales potential.

After attempting to delineate your market and where it is located, make predictions on what kind of volume in dollar terms your target market can support. Estimate the market share of each of your competitors. Although this may seem to be a difficult task, the more research you do into this matter, the better you will know your market. Attempt to find out such things as how much your competitors charge. Which firms will be your most troublesome competition? Why? Does the area appear to be saturated with competition? This could be a good thing as it might indicate that the market is buoyant and that the area can support a good business. On the other hand, it might prove that one more business in the field could produce failure.

ATTRACTING CUSTOMERS

To attract customers and maintain their patronage, several important decisions should be contemplated. For example, pricing will be important as well as the amount and quality of the service offered, what image the business will portray, and how much advertising is required.

When thinking of an image to project, most service businesses should think of building customer confidence in terms of offering a quality service at reasonable prices. If you are to build repeat business, customers have to be satisfied with what you offer. They must feel confident that your operation is one that exemplifies honesty and integrity. If you are attempting to sell your service on price and quality, then it is necessary to continually remind your customers of this policy. For example, a code of ethics could be established, printed and framed over your service counter.

Develop a policy for guaranteeing your work. If additional charges over your initial estimate are required for a piece of work, be sure to notify the customer by telephone instead of having an unpleasant surprise for them when they come to collect the item. Similarly, respect your customer's time. If the project is to be delayed, inform the customer at the earliest opportunity so as to avoid misunderstandings.

Too many smaller service businessmen regard "image" as a nebulous idea, yet these same owner-managers will accept the concept of "reputation." Actually, there is little difference except an image is something you deliberately design, develop and establish.

In regard to image, set high premiums on such matters as courtesy. Conduct campaigns to encourage employees to be considerate of others. If you operate from a shop where customers visit, have a clean, interesting waiting room. The building facade

should appear fresh and distinctive. A colorful, eye-catching exterior sign helps to provide instant identification and continuous advertising. The sign should be large enough to be easily read from a distance, yet proportionate to the building size.

ADVERTISING

Many small businessmen question the value of advertising. What they forget is that advertising can build sales volume at a lower cost per sale than any other method. There is also the practical business axiom that you have to spend money to make money. The astute businessman reserves a permanent place in his budget for advertising. He knows it is necessary to advertise, but with limited funds available he must make every advertising dollar count.

In order to achieve the best value from advertising, the owner-manager should plan ahead by developing an advertising budget. The first question to be asked is how much should be spent for advertising. Most businessmen plan their advertising budget as a function of total sales. For example, a local drycleaning business may spend 2.5% of sales on advertising. There are other factors that need to be considered in deciding how much to spend. For example:

- The newer the business, the more advertising is required to make it known.
- If a shop is in a poor location, advertising is required to attract people to go out of their way to stop there.
- If a shop is selling a highly promotional service, it needs to spend more on advertising.
- In order for a business to keep its share of the market, expenditures must bear some relationship to what competitors are spending. Aggressive competition usually requires aggressive advertising.

ADVERTISING PLANNING

It is good practice to prepare an advertising budget by the month and for specific media. For example:

	Gross Sales Last Year	Advertising Last Year (3% of Gross)	Estimated Sales This Year (5% Inc.)	Advertising This Year (3% of Gross)
Jan.	$ 6,000	$180	$ 6,300	$189
Feb.	6,500	195	6,825	205
Nov.	12,000	360	12,600	378
Dec.	18,000	540	18,900	567

	Jan.	Feb.	Nov.	Dec.
Total Budget	$189	$205	$378	$567
Handbills	89	—	100	100
Newspaper	100	105	75	300
Radio	—	50	178	50
T.V.	—	—	—	—
Community Affairs	—	25	—	50
Other Contingency	—	25	25	67

The above exercise forces the owner-manager to plan his promotions ahead, to be prepared to set goals and to act to attain them.

MEDIA

In selecting the media for advertisements, attempt to identify your market audience and then decide the best way to attract their attention. Television is an excellent medium as it reaches a large audience with good results but it is expensive. Newspapers are the number one medium for small businesses, and usually cover the businessman's market area adequately. The cost of newspaper lineage is relatively low and the retailer can personalize his advertising.

Some companies use "shoppers" which are special localized newspapers that carry advertising only for local businesses. Shoppers are usually the least expensive newspaper buys and may have a large circulation aimed directly at the target market. Yellow page advertising in the telephone directory is considered to be another very good method of advertising for services. Direct mail can also be a successful medium. If radio is to be used, then it is best that it be used frequently. Be careful to determine prime listening time.

Another effective method of advertising is to display an outstanding sign at your place of business which will attract local traffic. Other media may also be used such as transit and outdoor billboards, giveaways (pens, calendars), sponsorship of local contests, etc. However, it is wise to remember the most effective advertising is "word of mouth" from satisfied customers.

TRADE ASSOCIATIONS

Many service businesses have trade associations that are organized by owner-managers within the trade to promote the industry, maintain standards, for self-help and to provide other services to their members. Businessmen gain by associating with each other, especially if they are in the same trade.

Becoming active in trade associations may benefit you by your having input into pricing recommendations for member firms, and into wage recommendations for tradespeople. You may learn of methods to overcome problems that are currently bothering you, share business experience, learn of credit risks, become involved in setting trade standards, and act against those who could possibly harm your industry's image.

Chapter Five

Pricing

The goal in setting prices should be to maximize profits. To set prices properly there are four main elements to consider. They are the cost of materials and supplies, the cost of labour and operating expenses, planned profit and competition.

PRICING DECISIONS

For service enterprises, there are several possible rules of thumb in regard to setting prices. They vary according to different businesses. For example, a building maintenance service business might charge 1.5 times production costs. Production costs could be figured out as follows:

Janitors	Monthly Hours	Wage rate	Payroll
4	640	\$5/hr	\$3,200
Supervisor			
1	160	\$8/hr	1,280
			\$4,480

Vacation and sick leave and other benefits (10%)	448
Materials (10%)	448
Total Production cost	\$5,376
Total Billings \$5,376 × 1.5 =	\$8,064

The difference between the total billings and production costs is issued to pay overhead expenses and whatever remains is the owner's profit. In time, the owner-manager should know what profit percentage to expect. This also helps in establishing a price.

Some types of service businesses charge according to rules such as twice labour costs plus material costs, or twice material costs plus labour, depending upon which is the highest cost factor — labour or materials.

The best method to correctly price a service is to first determine costs, both direct and indirect. Direct costs include labour and materials. Indirect costs include the costs of maintaining trucks, office or warehouse space, secretarial or sales help, license fees, etc. Most owners have little trouble in defining the amount of direct costs associated with a job, but have problems assigning overhead or indirect costs to particular jobs.

Probably the easiest method to assign overhead is to use a percentage based upon previous profit and loss statements. In the example below, the businessman would directly figure out the materials and labour associated with a particular job and then add 40% to the final sales price to compensate for overhead and planned profit.

Sales		\$200,000
Cost of Sales (Materials)	\$80,000 (40%)	
Labour	40,000 (20%)	
All Other Expenses (Overhead)	60,000 (30%)	\$180,000
Profit		\$ 20,000 (10%)

PRICE/VOLUME RELATIONSHIP

Often the price which will bring in the biggest number of sales dollars is not necessarily the price which will maximize profits. For example, look at the price/volume relationship in the example below:

Selling Price	$6	$5	$5
Sales in units	5,000	15,000	10,000
Dollar Sales	$30,000	$75,000	$50,000
Direct Costs ($4 per unit)	$20,000	$60,000	$40,000
Profit	$10,000	$15,000	$10,000

In this situation, selling 5,000 units at $6 per unit would generate the same profit as selling 10,000 units at $5 per unit. However, if the price decrease of $6 to $5 per unit meant an increase of volume to 15,000 units, profit could be expected to increase from $10,000 to $15,000. The point is, be careful of dropping prices in hope of being compensated by increased volume. The best solution is to determine the best combination of selling price and unit volume which provides the greatest contribution towards overhead and profit.

ESTIMATING

For businesses such as the construction trades, good estimating for quotations on projects often means the survival of the company. Many of the more successful contractors build the job on paper before they submit a bid. They break the job down into detailed costs of material and labour by work units. They must also figure out the indirect costs of each job, such as for trucks, maintaining an office, interest charges, lawyers' fees, insurance, and so on. Therefore, each estimate form that contractors use should have such headings as activity, material, labour, subcontractors, overhead and profit.

In addition, there should be a column for the actual cost of the project to be compared to the estimated cost as the project is completed. Not only will it show if your estimates are on target as the work progresses but will provide a valuable reference to evaluate the profitability of a job after it is completed. It will show if the initial estimate was high or low, and point to needed adjustments on future bids.

The important thing to keep in mind when pricing is that costs have to be controlled in order to ensure the proper markup to obtain a satisfactory profit. For example, in the restaurant business, the largest item of direct costs will be the cost of food which should not be above 40% of sales in a well run operation. Many restaurants have menu logs whereby each item in the menu has the cost per service broken down.

For example, for a steak dinner, the costs and portions would be shown for the vegetables, potatoes, salad, soup, bread, butter, beverage, serviette (paper;), meat and dessert. The total food cost

would then be used to calculate the selling price on the menu, and the margin should be in the neighbourhood of a 150% markup on the cost of food. Menu prices should be reviewed on a regular basis to keep up with rising food costs.

When it comes to businesses such as hotels or garages, generally several services are run in the same business. For example, a motel could have room rentals, restaurant, and a lounge under one roof. A service station sells oil and gas, sells parts, repairs cars, and perhaps sells or leases automobiles.

The challenge here is to ensure that the prices charged for the various services are enough to cover the direct costs associated with each one, and to contribute to the general overhead and profit.

Chapter Six

Personnel

Small firms generally enjoy a good reputation for employer/employee relationships. Nevertheless, obtaining and keeping employees is one of the more crucial elements of any business. Good employees can be your firm's greatest asset. In a small service business, sales are directly related to how well customers get along with employees, and how employees anticipate and serve customers' needs. Profits are directly related to the efficiency and integrity of employees. Employee attitudes and abilities can make or break a business. Employees can be the biggest single expense of doing business and deserve attention.

In many cases, the small businessman works so closely with all his staff that he considers personnel management is well in hand. In some cases, this is true and the manager may be reluctant to issue statements of written personnel policy that may interfere with a business' operations. However, for most small businesses, the management and employees could both profit by planned personnel management whereby policies are written up to cover all regularly recurring eventualities such as layoffs, termination, sick leave, grievance situations, discipline, holidays, vacations, working conditions. Also employees have the right to know clearly what is expected of them, and how they are to be paid.

RECRUITING

The businessman should first carefully consider the need for a new employee. Sometimes there is another way to complete a job that is just as efficient and economical as adding someone to a payroll. To justify the hiring of an employee, the businessman should attempt to determine if the return on the investment of paying wages and the time taken to administer and train the employee and to properly equip him is realized through increased revenue and profit.

Recruiting potential employees can be a time-consuming task, but time well spent on recruiting can save heartache in the future. Sources of new manpower include people recommended by your present employees, chance applicants, trade and industrial associations, schools and teachers, commercial employment agencies, Canada Manpower, customers, suppliers and newspaper advertising.

Whenever possible, tell your present employees about vacancies first. Ask them to tell their friends and relatives. A good, steady worker often has friends of similar character and ability. Before going outside to fill a supervisory post, make sure that you do not overlook any present employee who may be ready for advancement.

Generally, advertising in the newspaper is perhaps the most fruitful and commonly used method of recruiting. Display ads are usually used only for specialized jobs, whereas classified "help wanted" advertising can be used for recruiting all types of

employees. The "open" ad, giving the name and address of your company usually invites better response than a "blind" ad just giving a box number to respond to. Bear in mind that an "open" advertisement obliges you to acknowledge every application.

EMPLOYEE RELATIONS

There are a few measures that can contribute almost immediately to providing good employee relations. First, when an employee comes on staff, give him time and show him what is expected. Research has shown that when employees are initially treated with respect, honesty and friendliness, their long-term commitment to a job increases.

Job specifications, including a written description of each job, should be used in selecting personnel, in training those selected, in preparing them for promotion, and in keeping their salaries and wages balanced to the degree of responsibility and skill required of them. They also provide an employee with an outline of what is expected of him. An example of a job description could be:

Service Repairman (Vacuum Cleaners)

Duties:	Calls on customers, repairs vacuum cleaners, completes work orders, collections, keeps repair equipment in order.
Responsible to:	Service Manager
Requirements:	Applicants must be bondable, knowledgeable about fixing vacuum cleaners, have a driver's license.
Personal:	Must be able to work on own, be able to relate well with customers, be punctual and reliable.

In carrying out the duties of his job, each employee should take orders from and be under the direct supervision of only one person in order to avoid the conflicts of divided responsibility. Setting down on paper the functions and lines of authority of your employees will assist each employee to understand his responsibilities and the relationship of his work to that of others in the business.

WAGES AND SALARIES

For most types of employees in service enterprises, there are essentially two choices in the method of compensation. Either you pay on the basis of time — by the hour, day, week, or month; or you pay on the basis of output such as by the piece, or time spent on completing given items or work units. The former is the prevailing method of wage payment in smaller businesses, mainly because it is easier to calculate and control. When paying by a piece rate, sometimes referred to as "incentive wages," you pay for

different levels of performance. It is usually applicable to shop work rather than to office operations.

Whatever method you select, and it could be a combination of the two methods mentioned above, it will be helpful to draw up a careful job description. Job descriptions will help to set up general job classifications so that jobs of similar nature and content will be paid roughly the same amount. The aim of most wage and salary systems is to achieve internal consistency in order that same job can be paid the same rate within the company.

Generally speaking, incentive wages are practical and effective only when:

- The units of output are measurable and readily distinguishable.
- A clear relationship exists between output and the worker's effort.
- The job is standardized, the flow of work and raw materials is regular, and breakdowns are few.
- Quality is less important than quantity.
- Supervisors do not have sufficient time to devote much attention to individual performance.
- The definite labor cost per unit is known.

One of the things workers fear most in the incentive wage system is that when they acquire greater skill and speed in turning out a particular piece, the rate will be cut forcing them to work harder to earn the same amount of money. You should, therefore, make a point of assuring your workers that rates will not be cut once established. If you intend to change a 100% wage system over to an incentive system be sure to include your employees in the planning of the system. Otherwise, this type of manoeuvre can upset your workers immeasurably.

PROFIT SHARING

If you decide to start a profit sharing plan in your organization, you would do well to publicize it amongst your employees for the sake of good employee relations. In publicizing the plan, however, bear in mind the following points:

- Mention that the plan is experimental so that you can discontinue it if it does not achieve the desired results.
- Do not give the impression that your profits are excessive.
- Have your accountant determine just what the profits have been and, when feasible, advertise the fact adequately. This will give employees confidence and stave off criticism that you are juggling the figures to suit yourself.

Profit sharing plans usually provide for an annuity for all employees who have been with the company for a specified time, and are based on profits earned. Payments, on the other hand, are not necessarily made annually, although they may be, and can be

determined by the performance of group. In some instances, individual performance is rewarded by such payments.

OTHER ASPECTS OF PERSONNEL MANAGEMENT

Some determinants in setting salary levels are: the minimum wage, union scales, salaries for similar jobs in the area, the applicant's previous salary and experience, and his potential to add to company profits.

One of the major assets employees seek from any job is reasonable security. Be sure to encourage and be responsible to your staff. To assist in this regard, it might be advisable to institute a pension plan for your employees. A company's being small is no longer a barrier to the introduction of such plans through a reputable insurance agency. Building even a small permanent staff today demands inclusion of such employee benefits.

The role of employer calls for authority, imagination, tact and patience. The employer should approach all problems directly and openly. When personality conflicts exist between employees, the employer must deal with the situation promptly and in a non-partisan manner. An employer must recognize that people are motivated differently. Some employees thrive on being given additional responsibilities; others may fall apart. Some employees need constant encouragement and praise for work well done; others don't.

If being a personnel manager is one of the independent businessman's major problems, it is also one that will bring him some of his most gratifying rewards. Helping his employees develop their full potential has its own satisfactions, as well as making a solid contribution to the success of the business.

Note: The handbook in this series entitled "Starting a Small Business" outlines in detail all the employer's legal responsibilities towards employees. This includes payroll deductions, minimum wages, union regulations, etc. The section on insurance discusses health care insurance regulations and workers' compensation.

Chapter Seven

Financing

Alberta Economic Development and Trade, Small Business Division has prepared another handbook in this series entitled "Financing a Small Business". It provides a guide on how to arrange proper financing for a business in Alberta and it is freely available upon request. Nevertheless, since financing is such an important aspect of a service business, it would be appropriate to briefly discuss it here.

To arrange financing for a new service business can be a difficult task, especially at the outset. Capital equipment, real estate and other requirements are expensive in our society, and one has to plan financing carefully. Banks and other commercial lending institutions are usually hesitant about making loans to new businesses with no track record.

Some service businesses require considerable amounts of inventory, and financing for inventory can be especially difficult. Lending institutions are often reluctant to take inventory as collateral for it may be difficult to turn it back into cash should they have to foreclose. In some instances, lending institutions will finance inventory up to 65% of its value. When inventory advances are made, there is usually a ready market for the goods in question, and they should not be perishable or subject to early obsolescence. However, in most cases of inventory financing, good rapport has been established over a period of time between the lender and borrower.

When starting a service business, there are some cardinal rules of financing that should be observed. Firstly, a new business usually does well to minimize its fixed capital outlays to the greatest extent possible. For example, you should rent real estate rather than buy it, and see if it is possible to lease equipment instead of purchasing it. Although this policy may appear more expensive over the long run, it means that the business will have more money available for current expenses. Your own money used for working capital can normally be recaptured quickly through inventory turnover, but money sunk in fixed capital is harder to retrieve. Therefore, consider financing all fixed expenses such as leasehold improvements, cash registers, equipment and motor vehicles, thereby leaving your cash resources available for current operating expenses and/or inventory purchases.

When first starting, many new businessmen badly underestimate the amount of money that will be required to operate the business. Plan your requirements for working capital carefully and be prepared for contingencies. Attempt to obtain a working line of credit from your bank at the outset.

A line of credit is provided by banks to support working capital required by the business. The bank will negotiate to lend up to a certain amount of money providing certain terms and conditions are met. The bank can cancel the line at any time it considers necessary (hence the term "demand loan"). However, it

will not generally cancel without cause. A line of credit is extremely useful to a businessman. The loan will go up and down as the business needs the money, and interest is paid only on the amount outstanding. Generally, it is wise to avoid continuous operation at the upper end of the credit line.

Plan your financing requirements well ahead. It is important to approach your banker early. A lender does not want to be approached at the last minute with a crisis situation such as a payroll you are unable to meet. Also be prepared when you go for a loan. Present your banker with a written plan describing your intentions and business prospects. Prepare a cash flow or budget as described in the handbook "Financing a Small Business" which demonstrates your business's ability to service debt.

Show your banker that you have the business well under control. Keep him informed on any significant developments of your business. Provide financial data regularly. When a problem occurs, often reasonable solutions can be found if the businessman puts forward an honest front with a plan to tackle it. It is to your advantage to develop a good relationship with your banker.

There are many sources of financing a business in Alberta. It is advisable to ask business acquaintances or local merchants about the bank they use. It is important to deal with a banker who will be interested in your business and will sympathize with your aspirations. Building your business on a sound financial base is one of a businessman's most important jobs.

BREAK EVEN ANALYSIS

Although a cash flow is probably the most important planning device available to the owner-manager, a break even analysis can be an interesting exercise to determine the profit potential and points out the necessity of controlling expenses. A break even chart is simply a visual representation of sales revenues and expenses showing their relationship to volume.

Some assumptions are normally made when performing a break even analysis. They are:

(a) Selling prices do not change.
(b) Total fixed expenses remain the same. Fixed expenses are those costs that cannot change over the short run. For example: rent, equipment leases, loan repayment, etc.
(c) Variable expenses increase and decrease in direct proportion to sales. Variable expenses are those costs that can be changed in the short run. For example: labour, material purchases, selling expenses, etc.

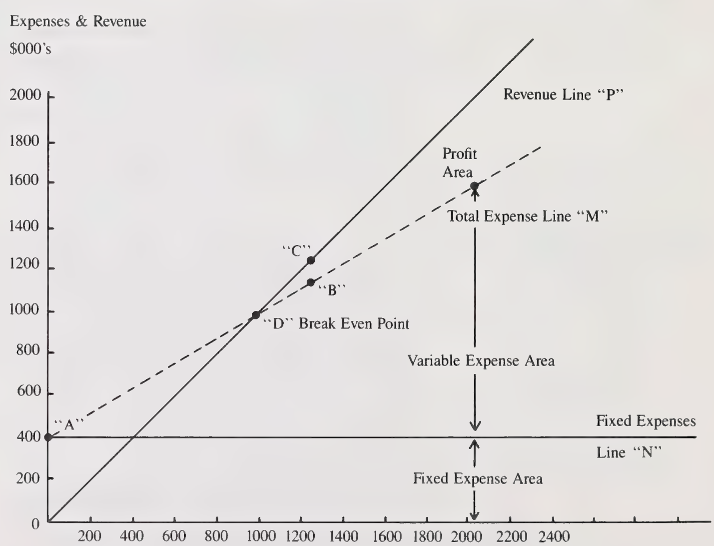
An example of a break even analysis is shown below:

THE SMALL SERVICE COMPANY

Condensed Income Statement

Net Sales (60,000 units F $20 per unit)			$1,200,000
Less Costs and Expenses:	Variable	Fixed	
Direct material	$195,000	—	
Direct labour	215,000	—	
Operational expenses	100,000	$200,000	
Selling expenses	150,000	50,000	
General & administration expenses	60,000	150,000	
Total	$720,000 +	$400,000 =	$1,120,000
Net profit before taxes			$ 80,000

Break Even Chart — The Small Service Company



Sales Volume (Revenue)

$000's

Step 1: On the horizontal axis mark off a scale that represents sales volume. On the vertical axis mark off a scale representing revenue and expense items. Draw fixed expense line "N" which represents fixed expenses of $400,000 that does not change over various level of sales.

Step 2: Plot point "B" as determined by the total of fixed and variable expenses on the vertical axis ($1,120,000) and total sales volume on the horizontal axis ($1,200,000). Draw line "M" starting at "A" and extending through "B". Line "M" represents the total expense line. Expenses both variable and fixed at any level of sales can be determined from it. This can be done by simply reading upward from sales volume to the total expense line "M", and then over to the vertical axis where the dollar amount of expenses can be found.

Step 3: Plot point "C" which outlines the total sales volume and total revenue or $1,200,000 on both scales. Draw revenue line "P" starting at "0" through point "C". The break even point is at point "D" where the total expense line "M" intersects revenue line "P". Therefore, as shown on the graph, the break even point is where sales are $1,000,000 to cover total expenses of $1,000,000.

The advantage of a break even chart is that you can readily see what level of sales are required to obtain profits. For example, according to the chart given, if sales volume totalled only $800,000, total expenses would be greater than total revenue, thereby indicating a loss. However, if sales volume amounted to $1,800,000, total revenue would be much greater than total expenses resulting in a good profit.

RATIO ANALYSIS

When discussing financing, there are a number of ratios that lenders like to use to find out the relative health of a business. Ratio analysis can also be used as a management tool for better control of the business. The basic data for ratio analysis comes from the firm's balance sheet and profit and loss statement. This data should be readily available in any business. The purpose is to detect favourable or unfavourable trends in the performance of a business. It will help a busy owner-manager identify trouble spots accurately and quickly.

Some of the key business ratios are briefly discussed below:

(a) Current Assets to Current Liabilities: This is an important test of solvency, meaning whether the cash on hand, or those short-term assets, such as inventory, which can be quickly converted into cash, are enough to meet all debts falling due within a year's time. A high current ratio is looked upon favourably.

(b) Debt to Equity: This ratio measures "what is owed compared to what is owned", thereby giving a picture of the financial soundness of a business. Total debt is divided by tangible net worth. Tangible net worth equity is the true worth of the business (assets minus liabilities) minus any intangible items in the assets, such as goodwill or incorporation costs.

(c) Net Sales to Tangible Net Worth: This ratio shows how actively invested capital is being put to work by indicating its

turnover during a period. Net sales are divided by tangible net worth to arrive at the number of times the invested capital is turned over in a period. Both overworked and underworked equity is considered unhealthy.

(d) Profits to Equity: This is the measure of return on investment and is considered one of the best criteria for profitability. Net profits (after taxes) are divided by tangible net worth to arrive at a percentage figure. If this "return on capital" is too low, the capital involved might be better used elsewhere.

(e) Net Sales to Inventory: This gives the average turnover of inventory and is useful for comparing one company's performance with another, or with the industry's. Net sales are divided by the average inventory over a period of time. The turnover figure derived is only an average and should be interpreted carefully as it does not provide a good turnover control for different items within the inventory.

(f) Net Profit on Sales: This ratio measures the return on sales. Profits after taxes are divided by total sales. A high rate of return on net sales is generally viewed favourably; however, a low rate of return on sales in conjunction with rapid turnover and a large sales volume may also result in satisfactory earnings.

Chapter Eight

Business Records

The primary objective of a good set of business records is to provide information which management can use in directing the operations of the business. Good records are a very important tool for management decisions. A record system should tell a manager how efficiently the business is being run, as well as pointing the way to cost reductions and to other plans that will increase profits.

A useful and effective system must be easy to understand, simple, flexible and efficient to operate. The system should be designed to provide information useful to management in a direct and economical manner. There is no advantage in having a system accumulate information for the sake of accumulating data. Flexibility must be built into the system which will allow the manager of a small service business to change and readjust to the needs of regular customers.

It is advisable to establish a relationship with an outside accountant or bookkeeper to assist in setting up your books. An accountant is usually called upon to prepare the business' annual financial statements and is in a good position to offer business advice. However, the businessman should know how to take care of the records and to be able to exact information from them to improve the business.

For service businesses, records should at least consist of the following basic elements:

- A record of all monetary transactions, that is, all money coming in and all money going out;
- A record of petty cash and daily bank deposits;
- A record of each credit customer's account;
- A record of expenses and accounts payable;
- A record of equipment and depreciation;
- A record of inventory;
- A record of employment for every employee.

BOOKKEEPING

Bookkeeping is simply defined as the recording of business transactions in a general ledger and journals.

Entering this information daily really is not that complicated and time consuming. The time spent is well worthwhile for it provides good control of: sales, cash receipts/disbursements, accounts receivable/payable and expenses.

To assist you in developing a simple and efficient bookkeeping system, Alberta Economic Development and Trade, Small Business Division, provides the no charge handbook "Bookkeeping for a Small Business". Call your nearest office of Alberta Economic Development and Trade for assistance.

DEPARTMENTALIZING

A business that sells different types of merchandise with varying gross margins and rates of turnover may find it more informative and efficient to organize records by department. For example, a fast food business could departmentalize by dividing menu items into different departments. Money coming in and going out may be entered in a departmental purchases and sales record as the basis of monthly departmental operating statements. This method will show which departments are the most profitable, as well as giving better control over purchasing, inventory, etc.

INVENTORY MANAGEMENT

Although service businesses in general have minimum amounts of inventory, stock control and inventory turnover in any type of business is important for profitability. There are several methods of recording inventory, but for the purposes of this handbook, we will only discuss the physical inventory check and the gross profit method.

The physical inventory is the only way to accurately determine merchandise on hand. To perform a physical inventory, simply list the quantity and value — at cost and at retail price — of every item on the shelves and in storage. Care must be taken that goods received after the close-off date be marked so as not to be included in the inventory count.

Between physical counts, inventory can be estimated by the gross margin method. By this method, the usual gross margin percentage is used to figure a cost of goods amount. This figure is subtracted from the goods available for sale to arrive at an estimate of current inventory at the end of the period.

For example, let's say the sales for one month totalled $15,000, inventory at the beginning of the month was $9,000 (cost), and purchases during the month amounted to $11,000 (cost). Assume that the usual gross margin is 35 percent of sales. To estimate the month's ending inventory, the following formula is used:

Beginning Inventory	$ 9,000	
Merchandise Purchased	11,000	
Merchandise Available for sale		$20,000
Estimated Gross Margin	35%	
Cost of Sales (100-35)	65%	
Sales for the month	$15,000	
Cost of goods sold (65% of $15,000)		– 9,750
Ending Inventory		$10,250

When margin percentages vary between departments within a business, each department's inventory should be calculated separately.

This method could be used to provide monthly income statements.

Many service businesses in Alberta have fairly sophisticated cash registers that can assist in inventory control. By this method, the merchandise is divided into workable, coded sections. When the clerk rings up a sale on the register, he also punches in other information including the code of the merchandise, cash or charge, and markdowns. When purchases of stock are made, this is also entered into the register according to the code and amount of the inventory.

Some cash registers are then able to give back — also by classification or department — beginning and ending inventory figures and turnover for that time period.

A single monthly report tells the owner-manager little. However, over a longer period, a series of reports on inventory control can give him a clear picture of where he is making money, and provide him with accurate information to help him make better buying and selling decisions. For non-retail items, a good general rule for service businesses is to maintain the lowest inventory levels possible. Inventories consume cash and the more cash sitting in the form of inventory items the less working capital.

ACCOUNTS RECEIVABLE

Care should be taken when granting credit as there could be considerable costs involved. Not only is there the cost of bad debts, but there are expenses in setting up a credit system to do with bookkeeping, billing, credit investigation and collections. Many Alberta businesses find it easier and more economical to accept bank credit cards, such as Chargex or Master Charge. Billing and collection activities are handled by the bank in return for a discount and cash is received for sales as soon as the sales draft is deposited.

For those companies that handle their own credit accounts, a firm policy should be decided upon in regard to who is allowed to obtain credit, what the terms are, and how past-due accounts are to be followed up. It is wise to remember that slow-paying accounts tie up working capital. Also, people that owe your company money may shop elsewhere rather than go to your store and face a possible demand for payment on past purchases. Therefore, granting credit may prevent or diminish further sales to the slow-paying customer and may lead to bad debt losses.

No matter how careful you are in extending credit, sooner or later bad debt losses will occur. If your credit granting policy is too strict, however, it may lead to a loss of potential sales. Bad debt ratios are calculated in the following manner:

$$\frac{\text{Bad Debts}}{\text{Total Credit Sales}} = \text{Bad Debt Percentage}$$

This ratio should not exceed 2%, and slow accounts need to be immediately dealt with when overdue. The older a receivable becomes, the more difficult it is to collect. Eventually, after a certain point, it will have to be written off as uncollectable.

A simple system of aging accounts receivable should be devised that lists each account and its position. The aging process should be undertaken at least three or four times a year, and more often for a business with a large volume of accounts. An example of a written accounts receivable aging system is given below:

Current	Total	Current	30-60 Days	60-90 Days	3-6 Mos.	6-12 Mos.	Over 1 Year
Boisvert Services Ltd.	600		600				
Cadence Chemicals	350				350		
Davidson Welding	200			100	100		
Dziabe Die & Tool	1,000	800	200				
Rutherford Construction	500	500					
Slater Drilling Ltd.	900	700	100	50	50		
T & H Products	810	810					
Total	4,360	2,810	900	150	500		
Percent	100%	64.4%	20.7%	3.4%	11.5%		

Note: The names and amounts shown above are not intended to represent any existing firm.

Chapter Nine

Management Improvement Areas

One measure of good management is the ability to perceive a problem in a business and to take the required action to correct it. In this section, several common management pitfalls will be discussed.

Large companies can absorb costly mistakes which might prove fatal for the small or medium sized enterprise. The margin for error in a small business is slim, and in the final analysis, more than 90% of business failures are due to inexperienced management. Management experts agree that those errors most often committed by managers include failure to plan, poor record keeping, reckless spending, misuse of time, poor marketing programs, poor personnel handling, and downgrading the need for expertise.

PLANNING

Lack of planning is probably one of the greatest sins that a businessman can commit. One prominent management consultant states, "No businessman can hope to succeed unless he formulates meaningful plans for his company." Often businessmen are overburdened with "yesterday's" crises, but without proper planning, the ability to take advantage of opportunities that arise or prevent possible difficulties is limited.

Plans should be committed to paper and should progress through five steps:

- Specific goals and problems are outlined.
- Data is researched.
- Possible alternatives for action are determined.
- Course of action and timetable selected.
- Plans are regularly reviewed and revised.

Planning experts suggest that the owner-manager of a small business draft a two-year plan, and then review it every three to six months. As the business grows, the participation of key employees should be sought to help develop company plans. People support what they help to create.

One aspect of planning no manager should neglect is organizational planning. A company's organization should operate with a degree of smoothness that facilitates getting things accomplished. Signs of poor organization include confused or hectic conditions in any department, excessive scrap or rework, desks piled high with backlogged paperwork, chronic late shipments, habitual delays for such things as material, parts and supervision. Another sign is overburdened executives or foremen.

The first step to overcome poor organization is to create short job descriptions for every position in the company. Job descriptions should include a title, and a full explanation of duties, responsibilities, objectives, authority, and accountability. The use of job descriptions will allow management to detect areas where there

is duplication of effort or too much idle time for some workers and too much work for others.

Another area of planning crucial to the small businessman is having a management succession plan. The loss of the owner-manager can create a paralyzing effect upon the company. The result of years of hard work can be erased overnight when succession alternatives have not been established. To avoid a succession crisis, the top man must actively plan for his retirement or any unexpected and potentially disastrous occurrence. Initially, he must be able to evaluate which of his employees would be able to fill his shoes. The complexity of tax and legal aspects of estate planning almost mandate that the owner-manager obtain professional legal and accounting assistance. At the very least, the owner should have a plan in writing that will cover the following points:

- A will covering disposition of the business.
- A buy/sell agreement, or carefully drawn outline for disposal or continuation of the business.
- A method of funding so that the disposition of the business can be successfully carried out as requested by the owner-manager.

RECORD KEEPING

Poor financial records cause more havoc than any other management mistake. Without proper records, there is no control of the business. Most successful businesses have well informed managers who have access to complete accounting systems and who have made full use of financial information regarding the company. The manager who says, "I know this business like the back of my hand, so who needs records?" is simply playing a game of disillusionment with himself. Unless the business is extremely small or unusually simple, the businessman cannot possibly keep everything in his head. A knowledgeable accountant can help a businessman set up a good accounting system. However, the businessman must be able to interpret and understand the financial information derived from the company records to know how to proceed on a planned basis.

MARKETING PROGRAMS

Surely one of the most important aspects of any business is to get — and keep — customers. Many independent businessmen see poor sales as an isolated problem rather than a symptom of a poorly developed and co-ordinated marketing effort. To combat sales difficulties, the businessman must make an objective analysis of his products and services, his marketing effort, his competitive situation, and efforts to determine the real needs and wants of the buyers. The attitude typified by the claim that "our products are so good they sell themselves" reflects a management myopia which usually results from a preoccupation with products rather than customers.

Another problem associated with poor marketing practices is inadequate pricing. In some instances, service fees are set too low to recover cost and still furnish a reasonable profit. If a businessman finds that he cannot sell a service at a price high enough to make a profit and still remain competitive, he should consider eliminating this service from his activities. Often a service business fails because it is not in the right location. The location of a business should be analyzed periodically to ensure time and changing conditions have not altered the desirability of a once profitable site.

When discussing marketing, one must realize that market research is a necessary activity. In simple terms, market research is objective fact finding and analysis of problems in the sale of services. It identifies customers, trading areas and consumer needs. The information derived from market research can be used to plot a firm's marketing strategy. The simple adage, "Look before you leap," is the theory behind market research.

PERSONNEL

To build a loyal and efficient staff, a manager of a business must devote considerable time and effort to training, hiring and managing employees. The cost of having unhappy or incompetent workers is immeasurable, and can destroy a business. An employer must be skillful in human relations. Time and effort put into the personnel function by a manager is usually well spent. It is not only rewarding from the point of view of the employees but also it is gratifying from the point of view of the manager to see people develop. With good personnel techniques, the likelihood of the success of the business increases.

THE NEED FOR EXPERTISE

Many service businesses are started by people who know a certain craft. For example, the auto mechanic who starts his own service station, the plumber who starts his own plumbing business and the electrician who starts his own electrical contracting business. Typically, when running their businesses, tradespeople will spend the majority of their time at their craft, and not in taking care of their business. If an owner-manager cannot adequately control his business and successfully perform the other functions of a good businessman, such as marketing, financing, personnel manager, etc., his business success will be questionable. Therefore, the new owner-manager of a business should take the time and effort to plan to run his company on a good businesslike footing.

TIME MANAGEMENT

Often a small businessman has too much to do, and too little time in which to do it. Most entrepreneurs work 50 - 70 hours a week, but much of this time may be wasted. Too much of an owner-manager's time is spent on trivial matters while vital jobs are left undone. A small businessman must learn to control the job rather

than letting it control him. His objective is to work "smarter not harder".

Efficient budgeting of work periods is a matter of self-discipline. Effective managers put urgent jobs before less pressing ones. They rank duties according to importance deciding, for instance, which is more urgent — planning a new advertising campaign or hiring a new assistant. The best method of tackling routine duties is to schedule weekly or monthly activities.

A cardinal sin of many managers is their failure to delegate authority. Symptoms of faulty delegation are obvious. The top man is too busy to be effective and makes costly mistakes, or no one is capable of taking over in emergencies when the boss is ill or absent. The attitude that "I can do it faster and better myself" mitigates against the improvement of the company's position. To increase the confidence of employees, time and effort can be saved by training individuals properly before they are "turned loose."

Often when managers review their schedule of activities in a day, they will find that a considerable amount of time has been spent on relatively easy chores that could have been delegated to others.

Problems arising from inexperience are not limited to new enterprises. Experienced businessmen often discover, after several years, that they have been pushed out of their depth by the increasing complexity of the expanding venture. To stay in business, they need to learn new skills. Often the proprietor of a company has to acquire executive talent to assist in managing the company. When hiring an executive to help run the business, the manager should hire one whose strengths lie in areas where the owner is weak. A new executive could lighten the boss' workload and provide management insurance should illness or some other misfortune strike the top man.

Bringing in a partner affords the same advantages as hiring a top flight employee, plus an extra dividend — the generation of additional funds from the partner's financial investment. However, many owners of small firms are reluctant to take on a partner because they want to maintain complete ownership. This ignores the fact that a smaller share in a prosperous company is more valuable in the long run than total ownership of a dead or dying company.

Before hiring a key management employee or a partner, it is best to first have a trial period to ensure that the individuals will get along with each other. The length of this test period should be determined in advance. Over an extended period, a prime candidate might tire of promises and leave the company.

Merger with a compatible business can also achieve the same results as bringing in a partner. Such a move should never be

undertaken without careful study and consultation with professional advisors such as a banker and a lawyer.

MONEY MANAGEMENT

Throughout the life of any business, there will be times when cash is in short supply. As mentioned previously, this is often caused by poor financial planning, but there are some immediate methods by which the problem can be approached to alleviate the situation.

Many companies are overburdened with excessive, slow moving or outdated inventory. Sometimes bargain hunting managers make inventory purchases that cannot be used for some time. Deadweight inventory should be sold off, and improved stock purchasing controls be implemented.

Another method of increasing cash reserves immediately is by the owner-manager cutting his salary. The owner of a firm must be prepared to sacrifice immediate plans for a high income for the survival and growth of the firm.

A business should be careful not to purchase lands, buildings, equipment or services that it can ill afford. Non-essential purchases should be postponed until the company is in good health. Similarly, a business would be well advised to stop wasting time and capital on products, services or customers that contribute little to the company's success. Only those facets of the enterprise that promise to yield the highest returns should be emphasized.

An owner-manager cannot grant credit too leniently or become lax in collection efforts. Delinquent customers should be put on a cash-only basis or dropped. A business should develop a firm, well-reasoned policy concerning credit extension, limits, terms and collections.

OUTSIDE CONSULTANTS

Another area that small businesses should carefully consider is the hiring of outside management consultants. Although the fees of management consultants can be stiff, they might be less expensive in the long run than making a poor management decision or continuing poor management practices. The businessman must recognize that the use of outside management consultants does not indicate failure or incapacity. Nor does it necessarily mean that the company is in trouble. Often very successful businesses use management consultants on a regular basis to ensure that they are on a profitable track. Business counsellors can help with complex problems such as legal matters, taxes, accounting, insurance, finance, marketing, advertising, personal evaluations and efficiency studies. They can also search for personnel for your company.

In Alberta, there are several sources of management counselling available at little or no cost to the businessman. Firstly, there is the Counselling Assistance to Small Enterprise (C.A.S.E.) operated by the Federal Business Development Bank. This is a program whereby retired executives, for a nominal fee, provide counselling assistance to small businesses.

Another source of counselling for small businesses is Alberta Economic Development and Trade which operates throughout Alberta staffed by people knowledgeable in business problems. Its Business Development Representatives have access to expertise within the department that includes technical, marketing and financial people who are available to help small businessmen in Alberta achieve their objectives. The phone number of your local Business Development Representative is contained in the back of this handbook.

Appendix

PROVINCIAL AUTHORITIES

Alberta Health Care Insurance Commission 10025 Jasper Avenue Edmonton, Alberta T5J 3Z3 427-1400	2nd Floor, McLaws Building 407 - 8th Avenue S.W. Calgary, Alberta T2P 1E5 297-6411
Apprenticeship Branch & Trade Certification Alberta Career Development and Employment 10926 - 119 Street Edmonton, Alberta T5H 3P5 427-3722	4th Floor 1015 Centre Street N.W. Calgary, Alberta T2E 2P8 297-6457
Labour Relations Board #503, 10808 - 99 Avenue Edmonton, Alberta T5K 0G5 427-8547	Tower #3 1212 - 31 Avenue N.E. Calgary, Alberta T2E 7S8 297-4333
Central Registry Department of the Attorney General 5th Floor, J.E. Brownlee Building 10365 - 97 Street Edmonton, Alberta T5J 3W7 427-5104	3rd Floor, J.J. Bowlen Building 620 - 7th Avenue S.W. Calgary, Alberta T2P 2R4 297-6257
Corporate Registry Alberta Consumer & Corporate Affairs 8th Floor, John E. Brownlee Building 10365 - 97 Street Edmonton, Alberta T5J 3W7 427-2311	902 J.J. Bowlen Building 620 - 7th Avenue S.W. Calgary, Alberta T2P 0Y8 297-3442
General Safety Services Division Alberta Labour #805, 10808 - 99 Avenue Edmonton, Alberta T5K 0G2 427-3680	2nd Floor, 1212 - 31 Avenue N.E. Calgary, Alberta T2E 7S8 297-5753
Employment Standards Branch Alberta Labour Room #403, 10339 - 124 Street Edmonton, Alberta T5J 3W1 427-3731	Tower #3, 1212 - 31 Avenue N.E. Calgary, Alberta T2E 7S8 297-5881
Workers' Compensation Board Box 2415, 9912 - 107 Street Edmonton, Alberta T5J 2S5 427-1100	132 - 16th Avenue N.E. Calgary, Alberta T2E 1J5 297-6471

FEDERAL AUTHORITIES

Packaging Weights and Measures	Department of Consumer & Corporate Affairs 10225 - 100 Avenue Edmonton, Alberta T5J 0A1 420-2491	2919 - 5th Avenue N.E. Calgary, Alberta T2A 6T8 292-5650
Copyrights Industrial Designs Patents	Commissioner of Patents Department of Consumer & Corporate Affairs Ottawa-Hull, Canada K1A 0C9 997-1936	
	Registrar of Trademarks Department of Consumer & Corporate Affairs Ottawa-Hull, Canada K1A 0C9 997-1420	
Export Assistance Foreign Investment Review Board	Department of Regional Industrial Expansion 505 Cornerpoint Building 10179 - 105 Street Edmonton, Alberta T5J 3S3 420-2944	Station M 630 - 220 - 4th Avenue S.E. Calgary, Alberta T2P 3C3 292-4575
Business Information	Business Information Centre c/o Federal Business Development Bank 606 Principal Plaza 10303 Jasper Avenue Edmonton, Alberta T5T 3N6 420-2952	
Employment	Canada Employment & Immigration Commission 10704 - 102 Avenue Edmonton, Alberta T5J 0G2 420-2207	Harry Hays Building 220 - 4th Avenue S.E. Calgary, Alberta T2P 3C2 292-4821
	Labour Canada 3rd Floor, Energy Square 10109 - 106 Street Edmonton, Alberta T5J 3L7 420-2993	Box 2800, Station M Harry Hays Building 220 - 4th Avenue S.E. Calgary, Alberta T2P 3C2 292-4566
Immigration	Canada Employment & Immigration Commission Room 200, Liberty Building 10506 Jasper Avenue Edmonton, Alberta T5J 2W9 420-2100	Harry Hays Building 220 - 4th Avenue S.E. Calgary, Alberta T2P 3C2 292-5724

Income tax source deductions	Revenue Canada — Taxation 9820 - 107 Street Edmonton, Alberta T5K 1E8 420-3510	Harry Hays Building 220 - 4th Avenue S.E. Calgary, Alberta T2G 0L1 292-4101
Sales and Excise Tax	Revenue Canada — Taxation District Excise Office #610, 10055 - 106 Street Edmonton, Alberta T5J 2Y2 420-3420	P.O. Box 2525, Station M Calgary, Alberta T2P 3B7 292-5678
Customs	Revenue Canada — Taxation Customs Operations Room 312 10709 Jasper Avenue Edmonton, Alberta T5J 3N3 420-3403	Harry Hays Building 220 - 4th Avenue S.E. Box 2970 Calgary, Alberta T2P 2M7 292-4610
U.I.C.	Unemployment Insurance Commission 10704 - 102 Avenue Edmonton, Alberta T5J 0G2 420-2207	Harry Hays Building 220 - 4th Avenue S.E. Calgary, Alberta T2P 3C2 292-4821

Economic Development And Trade Offices

HEAD OFFICE	12th Floor, Sterling Place 9940 - 106 Street Edmonton, Alberta T5K 2P6 Telephone: 427-0669
SMALL BUSINESS DIVISION	17th Floor 10025 Jasper Avenue Edmonton, Alberta T5J 3Z3 Telephone: 427-3685
CALGARY	5th Floor 999 - 8 Street S.W. Calgary, Alberta T2R 1J5 Telephone: 297-6284
CAMROSE	4909 - 48 Street Camrose, Alberta T4V 1L7 Telephone: 679-1235
EDSON	Provincial Building 111 - 54 Street Edson, Alberta T0E 0P0 Telephone: 723-8229
GRANDE PRAIRIE	Room 1401 Provincial Building 10320 - 99 Street Grande Prairie, Alberta T8V 6J4 Telephone: 538-5230
LETHBRIDGE	Room 249 Provincial Building 200 - 5 Avenue S. Lethbridge, Alberta T1J 4C7 Telephone: 381-5414
MEDICINE HAT	Room 217 Provincial Building 770 - 6 Street S.W. Medicine Hat, Alberta T1A 4J6 Telephone: 529-3630
PEACE RIVER	Bag 900, Box 3 10122 - 100 Street River Drive Mall Peace River, Alberta T0H 2X0 Telephone: 624-6113

RED DEER	3rd Floor Provincial Building 4920 - 51 Street Red Deer, Alberta T4N 6K8 Telephone: 340-5300
ST. PAUL	P.O. Box 1688 Room 409 Provincial Building 5025 - 49 Avenue St. Paul, Alberta T0A 3A0 Telephone: 645-6358